

**Program Summary  
Arizona Department of Racing  
Racing Funding Sources and Provisions**

**Program Overview**

The Department of Racing regulates the Arizona pari-mutuel horse and greyhound racing industry. The department oversees and supervises all commercial horse, greyhound, and county fair meetings; licenses all participants; collects state revenues generated by race meetings; promotes and encourages the breeding of horses and greyhounds in the state; and enforces laws and rules related to racing and wagering to protect industry participants and the public. In addition, the department regulates and supervises boxing events conducted in Arizona to protect participants in these events.

**Program Funding**

The Department of Racing receives funding from 3 sources: the state General Fund, the County Fair Racing Fund, and the Racing Administration Fund. The County Fair Racing Fund receives 9% of revenue derived from pari-mutuel receipts, license fees, and unclaimed property (it has a maximum cap of \$300,000). The purpose of the fund is for the administration of county fair racing.

The Racing Administration Fund receives 1% of revenue derived from pari-mutuel receipts, license fees, and unclaimed property (it has a maximum cap of \$45,000). The purpose of the fund is to administer the Arizona County Fairs Racing Betterment Fund, the Arizona Breeders' Award Fund, the Arizona Stallion Award Fund, and the Greyhound Adoption Fund.

In FY 2006, the department is funded at \$2,913,800. The General Fund accounts for 88.2% of the department's total funding in FY 2006 and this percentage has remained relatively constant since FY 2001. The FY 2006 funding level represents a decrease of (5.3)% from FY 2001 levels. *Table 1* displays historical funding information for the Department of Racing's funding sources and provisions by fund source using data from FY 2001, FY 2005, and FY 2006. As depicted in *Table 1*, appropriations from both the County Fair Racing Fund and the Racing Administration Fund were reduced in FY 2006. This was a technical decrease, as both of these funds have statutory expenditure limits which were incorrectly exceeded in FY 2005. The FY 2006 appropriation from these 2 funds represents their statutory expenditure limits.

**Table 1**

**Racing Funding Sources and Provisions  
Funding History**

<b><u>Fund</u></b>	<b><u>FY 2001</u></b>	<b><u>FY 2005</u></b>	<b><u>FY 2006</u></b>
GF	\$2,700,200	\$2,504,800	\$2,568,800
County Fair			
Racing Fund	319,100	371,400	300,000
Racing Admin.			
Fund	56,500	77,200	45,000
<b>Total</b>	<b>\$3,075,800</b>	<b>\$2,953,400</b>	<b>\$2,913,800</b>

*Pari-Mutuel Tax*

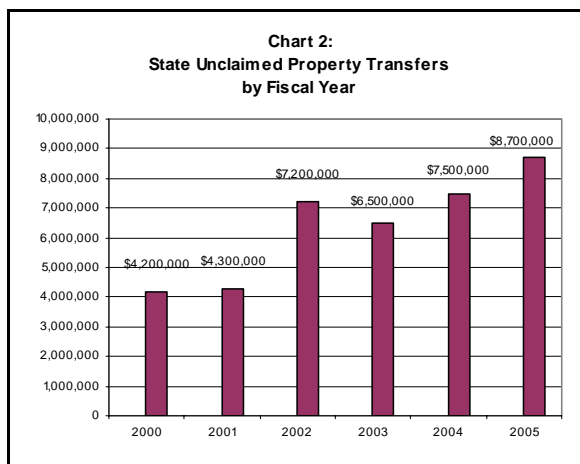
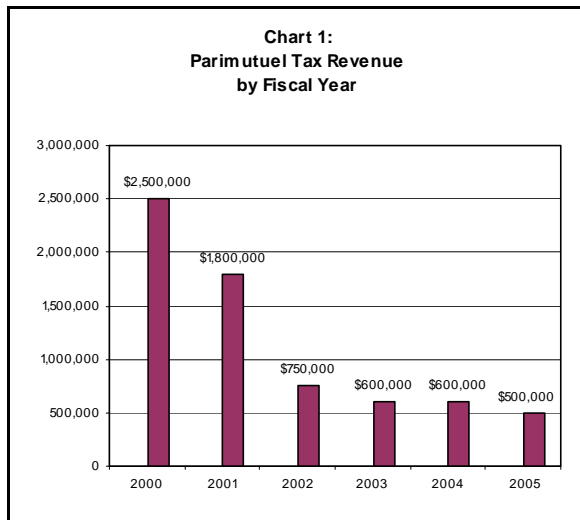
The pari-mutuel tax is assessed on the amount of money wagered at horse and dog racing facilities and simulcasts in Arizona. At horse tracks, the tax rate is 2% of the first \$1 million wagered and 5% of the amount wagered in excess of \$1 million. At dog tracks, the rate is 5.5% of the total amount wagered.

Revenues from the pari-mutuel tax are distributed among 8 different funds: the County Fairs Livestock and Agriculture Promotion Fund, the County Fairs Racing Betterment Fund, the Breeders' Award Fund, the Exposition and State Fair Fund, the County Fair Racing Fund, the Stallion Award Fund, the Administration of Betterment and Breeders Awards Fund, and the Agricultural Consulting and Training Fund, with the General Fund receiving none. In FY 2005, pari-mutuel tax revenues were \$461,000.

Additional funds are received from the Arizona Department of Revenue transfer of unclaimed property funds to the Department of Racing. During FY 2005, the transfer was \$8,706,400 (which constitutes 20% of the total amount of the Unclaimed Property Fund). These monies are distributed among the 8 separate funds and enable the Department of Racing to reach the statutorily authorized levels for each fund. The dollars remaining are deposited into the General Fund, which received \$4,420,100, from the Department of Racing's portion of unclaimed property dollars in FY 2004.

Over the past several years, as the pari-mutuel tax revenues have continued to decline (pari-mutuel receipts went from \$2.5 million in FY 2000 to \$500,000 in FY 2005 as shown by *Chart 1* on the following page), the contributions from the unclaimed property fund to each of the 8 funds increased. This in turn, reduces the funds available for the state's General Fund. Therefore, the unclaimed property funds become increasingly more important to the continuation of the programs

supported by these 8 funds and the state's General Fund. Unclaimed property transfers went from \$4.2 million in FY 2000 to \$8.7 million in FY 2005 (as shown by *Chart 2*).



The Boxing Commission component of the Department's regulation is funded from the General Fund and consisted of \$88,000 in FY 2005 along with 1.5 FTE Positions. All Boxing Commission revenues are deposited into the General Fund and consisted of \$44,000 in FY 2004.

#### *Capital Improvements Tax Credit*

Arizona also subsidizes the racing industry in the form of tax credits. The largest credit is the capital improvements tax credit, which reduces a particular permittee's pari-mutuel tax liability. A permittee is eligible for the credit when it completes a capital improvement, for example, the construction of the Yavapai Downs racetrack. Eligibility for new credits expired on June 30, 1999; however, old credits continue until they are used up. Yavapai Downs in Prescott is the only permittee that has capital improvements tax credits accumulated. Currently,

they have \$51,900,000 in credits which are applied toward their pari-mutuel tax liability. In FY 2004, they deducted \$79,000 from their credits (which was their total pari-mutuel tax liability for the fiscal year). These credits continue indefinitely until they are used up; therefore, Yavapai Downs is not expected to pay pari-mutuel taxes in the next 100 years. This credit, therefore, contributes to the decline in pari-mutuel tax revenues (which ultimately negatively impacts the General Fund).

#### *Hardship Tax Credit*

Each year, a permittee is eligible for a hardship tax credit determined as follows [A.R.S. § 5-111]:

- Determine the percentage decrease in pari-mutuel wagering in the previous fiscal year compared to the base year. The base year is defined as the highest total pari-mutuel wagering at the racetrack and all additional wagering facilities owned by the permittee for FY 1990 through FY 1994.
- Multiply the total pari-mutuel tax liability for the current year by the percentage decrease determined above, and multiplying the result by 3.
- Reduce the permittee's pari-mutuel tax due for the current period, and all future periods, by the result.

Currently, 3 out of the 5 racetracks (all of which are dogtracks) have decreases in wagering from the base year and are eligible for the hardship tax credit. In FY 2005, their total combined credit (including credits carried over from FY 2004) was \$4,083,300, which significantly exceeds their combined pari-mutuel tax liability for the same year.

#### Performance Measures

*Table 2* includes the measures the Department of Racing uses to assess the performance of its funding sources and provisions. None of these measures are included in the General Appropriation Act. In FY 2004, the employee turnover rate for horse racing was 54% and the rate for greyhound racing was 20%. All of these measures assess process-related issues such as the number of licenses issued for horse racing and greyhound racing. These measures do not necessarily measure the effectiveness of the fund sources of the programs, but rather provide descriptive information regarding its staff and customers.

The Department of Racing should consider a new performance measure that would estimate the amount of monies the General Fund would lose each year due to the decline in pari-mutuel taxes collected and/or the amount of pari-mutuel taxes that need to be collected in order for the General Fund to receive the maximum amount available from the unclaimed property monies.

**Table 2****Racing Funding Sources and Provisions  
Performance Measures**

<b><u>Performance Measure</u></b>	<b><u>FY 2004Actual</u></b>	<b><u>FY 2006Estimate</u></b>
Number of licenses issued for horse racing	3,157	2,500
Number of licenses issued for greyhound racing	582	600
Employee turnover rate for horse racing	54	15
Employee turnover rate for greyhound racing	20	12